



Purcell Investor Report

First Quarter 2010

Short Term Trading, Long Term Goals

Time is the wisest counselor of all. ~Pericles

This April, Purcell Advisory Services, LLC, celebrates its 12 year anniversary. What a great ride it has been and continues to be. Since 1998, Purcell has been providing innovative risk averse investment programs as an alternative to buy and hold investing. Currently managing more than \$160 million in 2200 accounts, Purcell's growing network of financial advisor/partners now numbers better than 140, representing investors in 47 states. Purcell is grateful to the investors, advisors and friends of the firm who have contributed to our growth.

In this issue of the Purcell Report, we interview, Teri L. Weigel, a founding Purcell member. In addition to her roles as supervising member and Chief Compliance Officer, Teri is also a Certified Financial Planner Professional® with 39 years of experience as an investment professional. Her contribution to the firm's success cannot be underestimated and her work ethic and industry 'smarts' are unrivaled.

Q: Congratulations seem to be in order, Teri. How quickly have these last 12 years seemed to go by for you?

A: It's moved pretty quickly, but at the same time we've had a chance to smell a lot of roses. One of our loyal advisors, with us since the beginning, noted that it's like putting your child in first grade and then seeing them graduate in 12 years. Not inconsequential! It's been fun, exciting and a challenge. Since the beginning, Purcell's investment programs were designed to not move in tandem with traditional markets, so education of advisors and investors has been an important component of what we do. It was critical to stress that the active trading part of the strategies provided low correlation with the major investment markets and a way to further reduce risk and preserve assets. This was a new concept for some advisors but now it seems more and more folks in the industry are better understanding what's at stake with a buy and hold strategy, so maybe the mountain has come to Mohammed, so to speak. It's been very engrossing to be in the vanguard of the financial services industry. Gee, am I a little long-winded there? As you can tell, I am passionate about our mission at Purcell to help advisors and investors, so just interrupt at any time!

Q: No, you're doing fine; it's wonderful to see your enthusiasm. I'm sure it will carry over into our conversation about some phrases that are used in Purcell's marketing materials and what the relationship is to the Purcell investment strategies. Like, what is meant by the expression "a full market cycle" and why is that important to the Purcell investor?

A: I see you have been reading the materials that the marketing department produces for advisors; good. During the last 60 years or so, most business cycles have lasted three to five years from peak to peak. So, in order to fully benefit from the added value of our risk averse programs, investors need to think in chunks of time such as at least one full market cycle. Purcell

focuses on the three to five year time horizon in order to give the strategies a fair chance to succeed in various markets. But here's a little paradoxical thing that we have to address. Remember that all Purcell programs are completely transparent and liquid and there is no penalty for leaving the programs at any time. These attributes can work against an investor because short term thinking can take over longer term goals.

Let me give an example. Purcell offers a wide spectrum of strategies ranging in risk from Moderate to Aggressive Growth. Aggressive Growth could, by its nature, experience some significant drawdowns as the model works through many factors over time in the markets. Investors may see downside volatility in their accounts and think that what they are seeing is performance, and decide to move from the program. But in order to fully benefit from the added value Purcell provides, they should remember to let the program work over that three to five years we keep talking about.

Q: I think what you're saying is that in any given year Purcell programs may not beat the market. Is that right?

A: Correct. The last 12 to 15 months have been difficult for some of our investment strategies and they have not beaten their benchmarks. But stretch that out to three years and you will have a better look at these programs. Investors who stayed for a minimum of 3 years would have been rewarded. Remember, Purcell's goal is to beat a benchmark over time. *Over time* are the operative words here. Look at what an investor is up against: over the last three years, (through 3/31/10) the S&P 500 Index has *rewarded* buy and hold investors with a negative **-4.16** average annual return. So, those buy and holders are negative about -12%. That's why we call it buy and HOPE, not buy and hold. *Every single* Purcell managed investment program has provided a better return for its investors over that same period. *Every single program*. Clients need to think about the goal they have set for their assets and take advantage of a liquid, tactical investment program which has a three to five year time horizon.

Q: I think I hear that enthusiasm again.

A: Well, yes, because if investors can withstand appropriate amounts of volatility, they can be rewarded. It's just that sometimes investors *think* they can withstand volatility, but it turns out that they mean UPSIDE volatility and not DOWNSIDE volatility. Our more aggressive programs, particularly,

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If your objectives or financial goals have changed,

Please contact your financial advisor or

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take time to work through larger drawdowns as they seek a higher growth objective. Our more moderate programs have experienced a smoother ride, allowing investors to be more patient about achieving their goals.

Q: It's pretty obvious that there is some risk in any investment. How does Purcell mitigate risk in its investment programs? Your literature states it is a primary objective.

A: Ah, my favorite topic. Purcell has always said it's not the *performance* that investors should look at first when investing in one of our programs, because they can't receive that past performance; the investors who were *already* in the programs benefited from that performance. But prospective clients can avail themselves of the risk parameters that Purcell strives to keep constant. One of our favorite quotes is from Morningstar:

"While no single measure can forecast a risk level . . . with accuracy, studies show that past risk does correlate with future risk. Indeed, this relationship . . . *is much stronger* than that between past return and future return ." (Emphasis added)

So we focus on the management of risk first, and then find ways to grow assets. Of course no one can predict the future, but Purcell works diligently to control the risk profile of our programs. Conservation of assets is paramount.

Q: While we are on that all important topic of risk, I noticed that Purcell delineates various categories of risk in its materials; can you give a little tutorial on what the labels mean?

A: I'd be glad to. Purcell has investment opportunities available ranging from our high yield programs which contain long only, non-leveraged mutual funds all the way to our aggressive growth equity programs which take advantage of vehicles such as leveraged (2 beta), long and inverse funds. It is important for investors to match the goals for each account they invest in Purcell programs with the objective of each program. Here's how we define the various objectives:

Moderate – Portfolio objective is to provide downside protection and capital appreciation.

Moderate Growth – Portfolio objective is to minimize drawdowns (from peak to trough) while maintaining growth opportunities.

Growth – Portfolio objective is long-term capital appreciation with controlled short-term drawdowns.

Aggressive Growth— Portfolio objective is to achieve high capital appreciation with minimum regard for short term drawdowns.

Q: That's helpful. I realize that volatility swings both ways, up and down, so investors probably need to plan for the long term and not be confused by thinking that short term volatility is encroaching on their long term goals and the performance of their investment at Purcell. As an investor myself, I appreciate your insight. I also read that Purcell was interviewed at length by Money Manager Review in order to showcase some of its risk averse programs which were at the top of their peer groups. It must have been good to have that national recognition, too.

A: Absolutely. What we do at Purcell is unique and in the forefront of the investment industry. We have a Post Modern Portfolio Theory perspective with leading edge, risk averse, tactical investment strategies, which have not only been well-received by advisors and their clients, but are increasingly necessary as the alternative to "buy and hope".

Q: Thanks for your time today, Teri. I still have more questions for you and we didn't even get to compliance issues and how Purcell safeguards against fraud, but we'll do another one of these soon.

A: I'd like to do that. There are always many interesting and intriguing investment topics to discuss.

PURCELL BOOK OF THE QUARTER

13 Bankers, The Wall Street Takeover and the Next Financial Meltdown

"They were careless people, Tom and Daisy – they smashed up things and creatures and then retreated back into their money or their vast carelessness, or whatever it was that kept them together, and let other people clean up the mess they had made."

This F. Scott Fitzgerald quote from *The Great Gatsby* is at the beginning of the book of the quarter: *13 Bankers, The Wall Street Takeover and the Next Financial Meltdown* by Simon Johnson and James Kwak. Certainly we are "still cleaning up the mess they (the bankers) had made." Michael Greenberger, former Director of the Commodity Futures Trading Commission, calls this book "A tour de force. For those Americans who believe they have never received an adequate explanation about the crash of 2008, who is to blame, where their tax dollars went, and why the villains have thrived while everyone else has suffered, read this book or be prepared for history to repeat itself soon."

It is very clear from reading *13 Bankers* that Wall Street banks are the new American oligarchy – a group that gains political power for its own benefit. The US has fought powerful elitists before, going back to the days of J.P. Morgan. Even Thomas Jefferson was concerned about the political threat of the Bank of the United States in the late 1700's.

Author Simon Johnson, a senior fellow of the Peterson Institute for International Economics, has written a gripping saga, full of intrigue and loaded with power grabbing. If you believe that a core problem of our democracy is the lack of separation between money and politics, this book will reveal chilling facts and be a serious wake up call. Johnson and Kwak call for reform of our financial system, the central pillar of which must be to break up the megabanks that dominate the financial system and hold our entire economy hostage.

A final quote from the book could get you hooked: "If the basic conditions of the financial system are the same, then the outcome will be the same. [They] will bring about another crisis, sooner or later. Like the last crisis, the next will cause millions of people to lose their jobs, houses or educational opportunities; will require a large transfer of wealth from the taxpayers to the financial sector; and it will increase government debt, requiring higher taxes in the future." Very scary stuff.

This fight over Wall Street is going on right now in Washington D.C. We are pleased to be able to offer you this complimentary book to help you better understand what is at stake: our future.

To receive your copy of *13 Bankers* by Simon Johnson and James Kwak, call Purcell @ 800.730.6867 or send an email to PAS1@purcellas.com.